

Message Text

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ACTION EUR-12

INFO OCT-01 ISO-00 IO-11 EURE-00 AID-05 CEA-01 CIAE-00

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TO SECSTATE WASH DC PRIORITY 1014

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E.O. 11652: N/A

TAGS: ETRD, OECD, EFIN

SUBJECT: HIGH LEVEL GROUP ON COMMODITIES: MARCH 9

MEETING OF SUBGROUP ON EXPORT EARNINGS

STABILIZATION

1. SUMMARY: MARCH 9 EXCHANGE OF VIEWS ON EXPORT EARNINGS STABILIZATION REVEALED BROAD CONSENSUS THAT LIBERALIZATION OF IMF COMPENSATORY FINANCING FACILITY (CFF) RESULTING FROM JAMAICA DECISIONS HAD GREATLY INCREASED THE VALUE OF THIS FACILITY TO LDC'S AND WAS LIKELY TO LEAD TO DRAWINGS IN 1976 GREATER THAN THOSE CURRENTLY OUTSTANDING. GROUP ALSO GENERALLY AGREED ON DESIRABILITY OF GETTING TRUST FUND INTO OPERATION AS SOON AS POSSIBLE, WITHOUT CLOSING DOOR TO PROVIDING ADDITIONAL COMMODITY SPECIFIC COMPENSATORY FINANCING SHOULD LDC'S CHANGE THEIR PRESENT NEGATIVE VIEW OF THIS. DISCUSSION OF POSSIBLE CHARACTERISTICS OF AN EARNINGS STABILIZATION SCHEME ADDITIONAL TO CFF WAS INCONCLUSIVE, BUT THERE WAS WIDE RECOGNITION THAT

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DECISION AMONG OPTIONS FOR KEY PARAMETERS SUCH AS

COMMODITY COVERAGE AND TERMS FOR POOREST COUNTRIES WAS MORE A POLITICAL AND PRESENTATIONAL QUESTION THAN A TECHNICAL ONE. END SUMMARY

2. CFF LIBERALIZATION: VIRTUALLY ALL DELS AGREED WITH ASSESSMENTS BY US, UK (HAYES, WHO ALSO CHAIRED MEETING), AND FRANCE THAT CFF HAD BEEN EXPANDED VERY CONSIDERABLY AND THAT UTILIZATION OF UP TO SDR 1 BILLION IN 1976 TO COVER 1975 SHORTFALLS VERY LIKELY. UK DEL THOUGHT THIS ESTIMATE MIGHT WELL BE CONSERVATIVE. US DEL (RYAN) STRESSED IMPORTANCE OF NEW FORECASTING AND STATISTICAL PROCEDURES AND NOTED THAT INCREASE IN CFF AVAILABILITIES COMPARED VERY FAVORABLY WITH LIKELY SHORTFALLS LDC'S MIGHT EXPERIENCE. FRENCH DEL THOUGHT POSSIBILITY OF NEED TO FURTHER LIBERALIZE REMAINING CONSTRAINTS ON CFF USE SHOULD BE KEPT IN MIND. SWEDES WERE ONLY NEGATIVE VOICE, GIVING CFF LOW MARKS IN TERMS OF CONCESSIONALITY, AUTOMATICITY, AND COMMODITY ORIENTATION. IMF REPRESENTATIVE REPORTED ON SOME RECENT STUDIES IMF STAFF HAD MADE REGARDING USE OF CFF IN 1976. HE SAID 39 OF 70 LDC'S STUDIED COULD LIKELY DRAW UP TO QUOTA LIMITS OF FACILITY WHILE 7 OTHERS COULD MAKE SOME DRAWINGS.

3. TRUST FUND (TF): GENERAL FEELING IN GROUP WAS THAT TRUST FUND/CFF LINK WAS DEAD FOR TIME BEING BECAUSE OF LDC OPPOSITION. SWEDISH DEL STRESSED POINT THAT ANY NEW FACILITY WOULD HAVE TO INVOLVE ADDITIONAL RESOURCES IF IT WERE TO BE ATTRACTIVE TO LDC'S. IN THIS CONNECTION, DUTCH PROPOSED SECRETARIAT DO ANALYSIS OF FINANCIAL IMPLICATIONS OF SWEDISH EARNINGS STABILIZATION PROPOSAL, BUT GROUP, INCLUDING SWEDES, AGREED THIS WAS PREMATURE. FRG DEL (LANG), IN ONLY INTERVENTION OF THE MEETING, TOOK VERY CAUTIOUS LINE SUGGESTING NEED TO WAIT UNTIL CONSIDERABLE EXPERIENCE GAINED WITH LIBERALIZED IMF FACILITY BEFORE CONSIDERING ANY ADDITIONAL SCHEMES. FRENCH NOTED THEIR STRONG SUPPORT IN PAST FOR TF/CFF LINK, BUT SUGGESTED OTHER OPTIONS BE LOOKED AT TO HELP POOREST COUNTRIES THROUGH CFF IN VIEW OF LDC OPPOSITION TO TF PROPOSAL. US DEL PRE-

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SENTED VIEW, GENERALLY ACCEPTED BY GROUP, THAT TRUST FUND SHOULD BE ESTABLISHED PROMPTLY, LEAVING SUFFICIENT SCOPE FOR MODIFYING TF PROVISIONS AT A LATER DATE. HE NOTED US CONTINUED TO SEE SUBSTANTIAL POLITICAL AND ECONOMIC ADVANTAGES IN INCORPORATING A COMMODITY RELATED COMPENSATORY FINANCING CONCEPT IN THE TRUST FUND, BUT SAID THAT THIS ISSUE COULD BE RETURNED TO AFTER THE TF WAS IN PLACE AND OPERATING.

4. G-77 MANILA ACTION PROGRAM: US DEL WAS ONLY ONE
TO COMMENT ON G-77 PROPOSALS FOR MODIFYING CFF. HE
STRESSED DESIRABILITY OF GAINING EXPERIENCE WITH NEW
SCHEME BEFORE EMBARKING ON FURTHER MODIFICATIONS AND
INDICATED US OPPOSITION TO NUMBER OF G-77 CONCEPTS,
INCLUDING IMPORT PRICE DEFLATION OF SHORTFALLS, COVER-
AGE OF SERVICE EXPORT SHORTFALLS, AUTOMATIC DRAWINGS

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WITHOUT BALANCE OF PAYMENTS NEED TEST AND DEPENDENCE
REPAYMENTS SCHEDULE ON DEVELOPMENT "EXCESS" EXPORT
EARNINGS. US DEL NOTED, ON OTHER HAND, THAT LDC
PROPOSALS FOR COMPENSATING COMMODITY SHORTFALLS AND
FOR PROVIDING BETTER TERMS FOR POOREST COUNTRIES MERIT
FURTHER CONSIDERATION IN TRUST FUND CONTEXT.

5. FACILITIES ADDITIONAL TO CFF: RAMBLING AND INCON-

CLUSIVE DISCUSSION OF MAIN ISSUES SURROUNDING ESTABLISHMENT OF ANY NEW FACILITY ADDITIONAL TO CFF REVEALED WIDE RANGE OF VIEWS AMONG DELS. CANADA AND AUSTRALIA EXPRESSED STRONG DOUBTS ABOUT NEED FOR ANY NEW FACILITY, WHILE SWEDES AND DUTCH ARGUED IN FAVOR OF SWEDISH PROPOSAL. US DEL SAID CFF SHOULD BE CENTER POINT OF ANY EARNINGS STABILIZATION COMPLEX AND MADE CASE IN FAVOR OF US TRUST FUND CONCEPT. IN RESPONSE TO POINTS MADE BY OTHER DELS, HE NOTED HOWEVER, THAT US WAS FLEXIBLE ON PARAMETERS AND WILLING TO DROP IDEAS LIMITED OFFICIAL USE

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FOR USING TF RESOURCES TO CONVERT COMPENSATORY DRAWINGS BY POOREST COUNTRIES TO GRANTS AND FOR HAVING TF USE BORROWED FUNDS AS BASE FOR COMPENSATORY FINANCING TO HIGHER INCOME LDC'S. IN END GROUP RECOGNIZED THAT THERE APPEARED NO GOOD TECHNICAL BASIS FOR DECIDING QUESTIONS LIKE COMMODITY ORIENTATION OR SPECIAL PROVISIONS FOR POOREST COUNTRIES, BUT THAT THESE WERE MATTERS OF PRESENTATION AND TACTICS.
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